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FEBRUARY 1971

1971 AGRICULTURAL FINANCE Outlook

ECONOMIC RESEARCH SERVICE

U.S. DEPARTMENT OF AGRICULTURE

In analyzing the current situation and outlook, authors extensively utilized information solicited from the district Farm Credit Banks, the State offices of the Farmers Home Administration, the agricultural economists of the Federal Reserve System, the Agricultural Committee of the American Bankers Association, the farm mortgage departments of several life insurance companies in various parts of the United States, the field staff of the Farm Production Economics Division, and others. Most of the reports from these correspondents were written in November and December of 1970 and included pertinent information on the financial condition and prospects of farmers across the Nation. The reporters are uniquely qualified to render knowledgeable opinions. The authors and readers of this Outlook publication are indebted to these cooperators for their important contributions.

AGRICULTURAL FINANCE OUTLOOK

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Approved by
The Outlook and Situation Board
and Summary released
January 29, 1971

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SUMMARY

Lower interest rates, easing of the tight money situation, and increasing costs of production inputs spell further credit use by farmers in 1971. Farm debt (excluding CCC loans) outstanding at the beginning of 1971 was 6 percent above a year ago.

Interest rates on farm loans made in 1971 are expected to average about 1 percentage point lower than last year. Both long- and short-term farm loans will carry lower interest rates.

Funds for farm loans will be more readily available in 1971 than last year. Even so, lenders will still weigh heavily the soundness of the farming operation and repayment capacity before advancing farm loans. Lower interest rates and more activity in farm real estate loans by life insurance companies are expected to generate more farm mortgage loans this year than last.

Equities of farm proprietors increased less in 1970 than the year-earlier—continuing a trend begun several years ago. Assets in the farming sector increased only 2 percent in 1970 compared to a yearly average rise of 5 percent in 1965-69. While farm assets rose little in 1970, farm liabilities expanded 4 percent, thereby trimming the gain in equities to 1.4 percent from 3.6 percent the previous year.

Farm real estate value rose less than 2 percent in 1970, the smallest percentage increase since 1960. The smaller increase resulted from a slower rate of gain in farmland prices in many areas and declines in some.

The total value of farm physical assets other than real estate increased a little over 2 percent in 1970—much less than the 7 percent gain in 1969. Financial assets of farmers continued their slow accumulation, increasing by 2.5 percent last year.

Although it cost them the highest interest rates of the past half-century, commercial farmers generally were fairly well served with credit in 1970. Loans outstanding at the beginning of 1971 totaled $58.6 billion (excluding CCC loans)—$3.2 billion over a year earlier. Three-fourths of the increase was in non-real estate loans. Growth of farm mortgage loans was restrained by the reluctance of farmers to seek long-term loans at prevailing high interest rates.

Cash receipts from farm marketings in 1970 gained over those in 1969 in most regions. Most notable exceptions were in the Southeast and parts of the Corn Belt where Southern corn leaf blight and drought hurt crop yields and lower hog, poultry, and egg prices held down livestock receipts.

Despite the increase in cash receipts and gross farm income in 1970, realized net farm income was down

some 2.5 percent from the $16.2 billion of 1969 as production expenses were sharply higher. The outlook for 1971 points to some further decline in net farm income. Burdensome supplies of livestock are putting pressure on farm prices and incomes. But some rebound appears likely in the second half of this year as farm prices improve. Production expenses in 1971 will continue their persistent rise.

OUTLOOK FOR 1971

The financial condition of most farmers at the beginning of 1971 was only moderately improved over a year earlier according to survey respondents. Changes during 1971 are also likely to be small. Net farm income is expected to be smaller than in 1970. Receipts from farm marketings will be higher despite lower prices for hogs and some other commodities, but production costs will likely rise further.

Off-farm income which is important in many farm households has recently suffered in some areas from layoffs and fewer hours worked because of the sluggish economy and strikes. Reporters from those areas believed that nonfarm earnings will continue relatively low well into 1971. Improvement should come if the Nation's economy turns up as expected in 1971.

The value of assets as a whole will grow about as in 1970. The total value of farmland will rise at about the 1970 rate but in predominantly agricultural regions values will remain about the same. Relatively larger increases may occur where there is significant developmental potential for nonfarm purposes. Farmers may catch up on some postponed capital improvements. Higher operating and living costs may slow farmers' accumulation of financial assets. Some further expansion in debt is likely and any improvement in equities will probably not exceed last year's increase.

Farmers are expected to use more credit in 1971 than in recent years. However, reporters consistently emphasized that the more successful farmers stand the best chance of getting needed loans. Several observers stated that in some areas banks and other conventional lenders are becoming more conservative in their lending. In some of those areas, State directors of the Farmers Home Administration foresaw a substantial increase in loan applications. But inadequate loan funds from FHA are also foreseen.

An important development of the last few months has been an easier money situation. Funds for farm loans will be more available to lenders and to farm borrowers in 1971. Interest rates are declining from the highs of 1970.

Reporters expect interest rates on long-term real estate loans in 1971 to average as much as 1 percentage point lower than in mid-1970. Four of the 12 Federal land banks have already lowered rates since late 1970. Interest rates of life insurance companies are also declining. Their lending activity may be considerably above the low level of 1970.

The use of real estate credit will likely expand in 1971 particularly if the drop in interest rates is enough to cause some farmers to refinance short-term loans used as a substitute when making capital expenditures. Lower interest rates and increased availability of loan funds may also encourage more long-term borrowing for farm enlargement.

With respect to short-term interest rates, the decrease by country banks may not be as significant as for city banks, since country banks did not increase interest rates as sharply. Production credit associations are expected to lower rates in 1971 as a result of a steep decline in cost of their loan funds obtained from the financial centers through the Federal intermediate credit banks. Correspondents expected conventional lenders, on average, to reduce rates in 1971 ½ to 1 percentage point below 1970. However, movements in interest rates on farm loans depend largely on conditions and trends in the general economy.

Higher production costs projected in 1971 will be one factor causing an increase in non-real estate loan volume over 1970. If interest rates drop as anticipated there may be added demand for short- or intermediate-term credit to buy machinery and equipment. Less short-term credit, however, will be substituted for real estate credit which has become cheaper and more available.

FINANCIAL DEVELOPMENTS IN 1970

The total value of farm assets rose only 2 percent during 1970, a contrast to the marked increases in other recent years (table 1 and fig. 1). The rise was half that of 1969; in 1965-69 the gain averaged 5 percent. Values of both real and non-real estate assets rose more slowly in 1970. With farm liabilities increasing somewhat further during the year, the equities of farm proprietors rose $3.5 billion compared with gains of $9 billion during 1969 and $11 billion in 1968. The continuing slowdown in the improvement in proprietors' equities raises concern over whether it is a relatively temporary development or the beginning of a long-run trend.

Farm real estate prices in most States in the South and New England continued a strong advance, but prices and sales weakened in several Midwestern and Pacific States. The overall rise for the Nation was the smallest in a decade. The variation among areas reflected mainly localized price, income and credit conditions.

Table 1.—Balance sheet of the farming sector, January 1, 1969-71[1]

Item	1969	1970	1971[2]	Net change 1970-1971	
	Billion dollars	*Billion dollars*	*Billion dollars*	*Billion dollars*	*Percent*[3]
ASSETS					
Physical assets:					
Real estate[4]	202.7	209.0	212.4	3.4	1.7
Non-real estate	73.4	78.6	80.4	1.8	2.3
Financial assets	23.0	23.8	24.4	.6	2.5
Total	299.1	311.4	317.2	5.8	1.9
CLAIMS					
Liabilities:					
Real estate debt	27.1	28.4	29.2	.8	3.0
Non-real estate debt to:					
Reporting and nonreporting creditors	24.8	27.0	29.4	2.4	8.9
Commodity Credit Corporation	2.7	2.7	1.8	-.9	-34.5
Total	54.6	58.1	60.4	2.3	4.0
Proprietors' equities	244.5	253.3	256.8	3.5	1.4

[1] 48 States. [2] Preliminary. [3] Computed from unrounded data. [4] Real estate values are as of March 1.

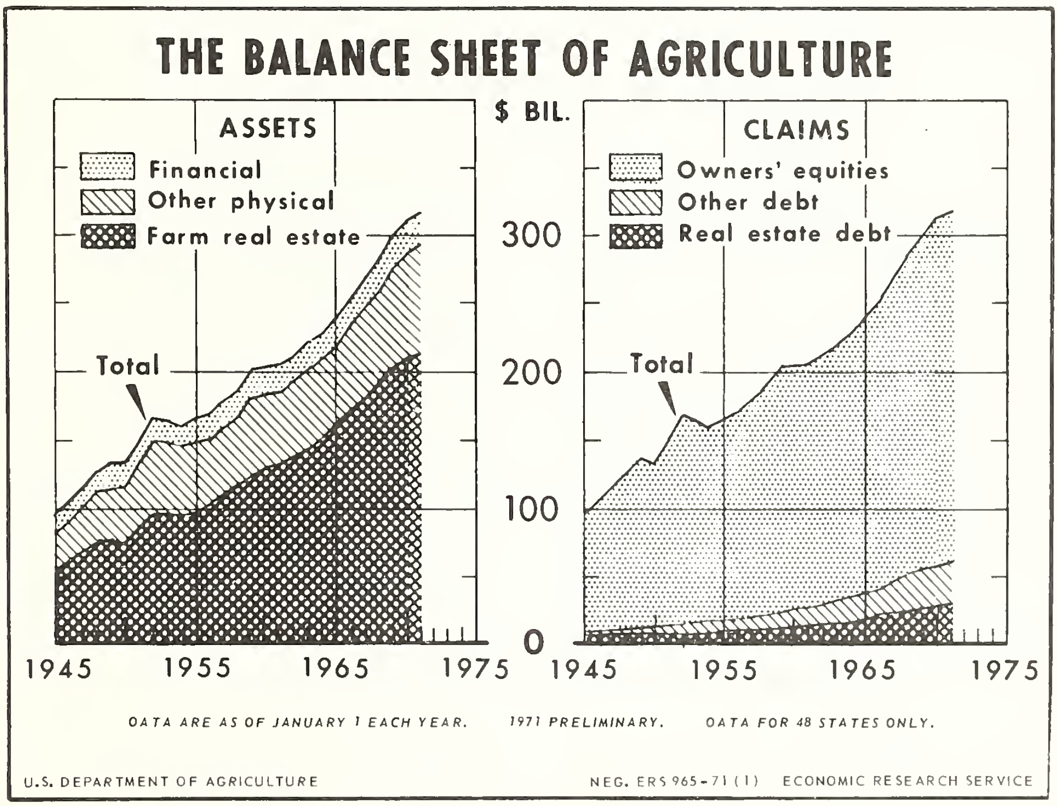


Figure 1

Non-real estate asset values increased only a third as much as in 1969. The value of livestock on farms on January 1, 1971 was less than a year earlier due to lower prices; in contrast, prices had increased sharply during the preceding year. Smaller crops of corn and wheat in 1970 were mainly responsible for a reduction in crop inventories. The value of financial assets continued to rise slowly.

Farm income in 1970 continued close to the improved level achieved in 1969, a factor contributing to the further growth of farm financial assets. Farm incomes were well maintained in most sections of the country. However, as indicated in the regional reports, incomes were lower in a number of areas as a result of low crop production or low prices. Feed crop production in many parts of the Midwest and South was reduced by drought and attacks of the Sothern corn leaf blight. Corn yields declined in many areas, including the major producing States of Iowa, Illinois, Indiana, and Nebraska. Many grain producers in these areas found that smaller crops reduced their incomes even though corn prices increased. Producers of hogs and of some fruit crops received smaller incomes because of lower prices.

Despite the fairly good level of farm incomes in most areas, farmers were reported to be cautious in their borrowing and investing activities. Interest rates softened slightly during the last half of the year, but still remained close to the highest levels since the 1920's. Farmers tended to delay capital or land investments, or to make them using short-term financing. Apparently, they believed long-term financing would be more favorable in the near future. The strong demands for funds by nonfarm sectors resulted in a smaller amount of farm mortgage loan funds being available from life insurance companies. Farmland buyers relied more heavily on land sellers for their credit. However, even with more seller financing, land sales were off. The rise in real estate debt was only a third that of non-real estate. One observer stated there was a "terrific backlog of demand for long-term financing . . . due to high interest rates, tightness in loan funds, and carryovers from 1970 operational loans." Comments were also made that farmers at times were able to avoid purchases of costly machinery by custom hiring and by leasing.

Loan repayments remained good on both short-term and mortgage loans in most areas. The sound condition of farm loans helped maintain the availability of loan funds even though nonfarm demands for funds were strong most of the year.

A new 3-year farm program—the Agricultural Act of 1970—was passed late in the year. The law will continue to provide price and income assurance to producers of the supported commodities including cotton, wheat, and feed grains. The first year of the program is 1971.

FARM INCOME AND EXPENDITURES

Outlook for 1971

One of the many uncertainties in the 1971 farm income picture is the possibility of reinfestation of Southern corn leaf blight. Futures contract prices for grains for delivery in the second half of 1971 are relatively high indicating opportunities for farmers to hedge against crop price reverses in 1971.

Livestock prices are not expected to average as high in 1971 as they did in the first half of 1970, but hog prices may improve slightly from last fall's. Cattle prices may improve slightly from present levels, and probably will exceed year-earlier levels in the second half of 1971.

Net realized farm income is expected to be below the $15.8 billion of 1970. Receipts from marketings will probably be well above 1970 as sharply higher crop receipts more than offset a small drop in livestock receipts. But expenses are expected to again rise more than gross farm income. Interest costs, however, should come down slightly as interest rates ease.

1970 Income Situation

Farm income eased considerably in July-December from the high levels in the first half of 1970. Realized net farm income was $15.8 billion for 1970, compared with the $16.2 billion of 1969. Realized gross farm income in 1970 rose to $56.2 billion from $54.6 billion in 1969. Net farm income per farm (excluding inventory change) was $5,392 in 1970, slightly lower than the $5,437 record high in the previous year.

Livestock and livestock product receipts were estimated at $29.0 billion compared with $28.4 billion in 1969. Large supplies of livestock and livestock products in the second half of 1970 pushed prices below year-earlier levels and depressed receipts from marketings.

Receipts from crop marketings in 1970, at $19.6 billion, were 4 percent above 1969. Crop production was down slightly, but the average of all crop prices increased with corn, wheat, soybeans, and cotton prices showing considerable strength.

Farm production expenses for 1970 increased 5 percent, totaling $40.4 billion for the year. Prices advanced for all major inputs except fertilizer. Interest and tax charges per acre were up substantially again and farm wage rates also exhibited another sharp rise. Purchased feed prices were noticeably higher than a year earlier, particularly in the closing months of 1970.

Nonfarm income of the farm population for 1970 was about 4 percent higher than in 1969. This gain trailed the 8 percent increases of the previous 2 years. The slowdown in economic activity throughout the Nation last year was the reason for the smaller increase in 1970.

FARM REAL ESTATE

Outlook for 1971

The farm real estate market in 1971 will be similar to that of 1970 with little overall change in value or transfer activity. Prices are expected to change only slightly in the Western States and Corn Belt while fairly strong upward movements are expected in the Northeast and Southeast. In a switch from last year, falling interest rates and a modest increase in the supply of commercial funds available for farm mortgage loans may encourage more market activity. Market supply and demand indicators show that the number of farms available for purchase will remain fairly large in relation to the number of buyers in the market. As in the past, enlargement purchases will account for the majority of the transactions.

1970 Farm Real Estate Market

The average value per acre of farm real estate increased 3 percent for the year ended November 1, 1970. Two-thirds of the increase occurred in the first 4 months of the year. The total value of farm real estate reached $210.7 billion on November 1, 1970—up $3.4 billion from a year earlier. Nationally, the average value of farmland increased $5 per acre to a total of $195 per acre. The average value per farm was estimated at $80,000, up from $75,100 for the previous year.

Price changes among States varied widely (figure 2). Values increased 5 percent or more in 21 States, with 6 of these States up 10 percent or more. Twenty-two States showed increases of 1 to 4 percent, while declines of 1 to 5 percent were registered in 5 States.

The sharpest declines reported were 5 percent in Kansas and 3 percent in California. Real estate reporters in both areas cited tight credit conditions as a partial explanation. An uncertain labor picture in California may have also contributed to a lack of buyer interest. In Kansas reporters indicated that, although farms were coming on the market at about the same rate as in previous years, fewer buyers were looking for land.

In the Northeast a strong demand for rural homes and for urban use continued to place upward pressure on land values, even with a shortage of market money. In the Southeast changing farming practices accompanying technological change and a growing nonfarm demand contributed to the continuing strong market.

With few exceptions, values rose less rapidly in the March to November period than in any similar period since 1960 when land prices dipped sightly in many

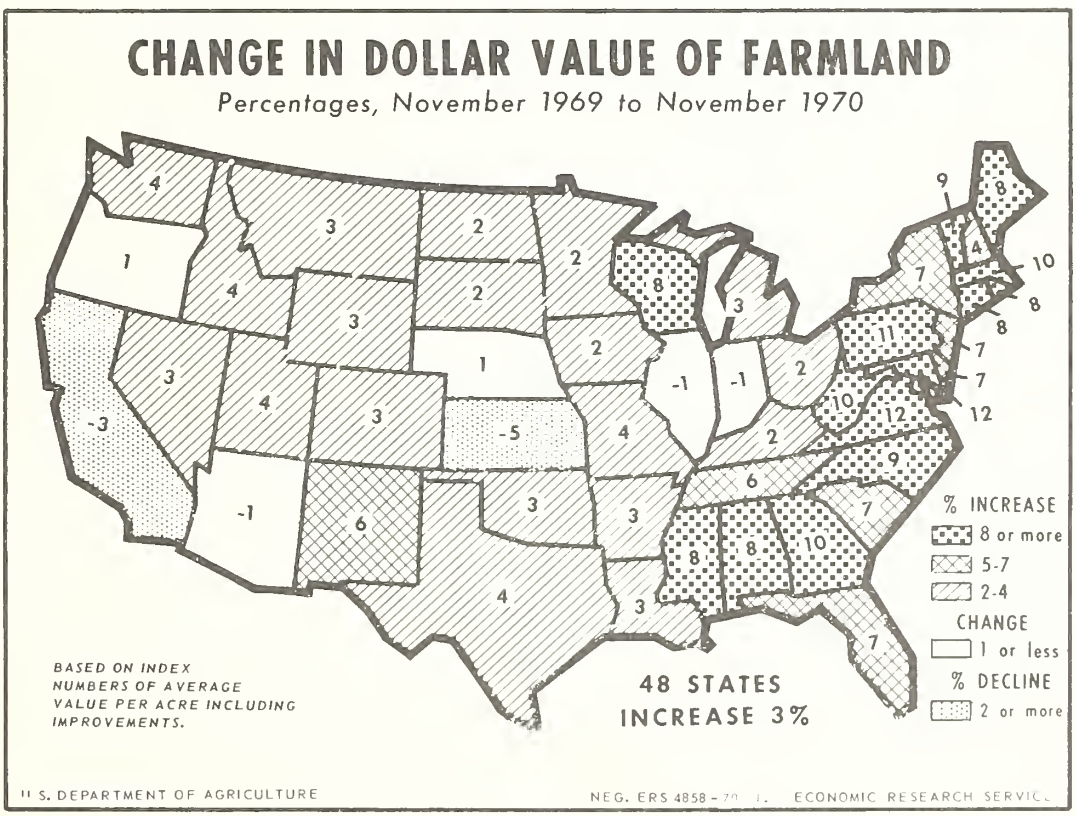


Figure 2

Corn Belt and Appalachian region States. The general slowdown for the 8-month period seemed to reflect tight credit and uncertainty over economic conditions during the period.

Reporters in October 1970 generally believed that the real estate market had remained at a stable but low level of activity over the past year. Most reporters indicated that the number of people looking for farmland was lower than in 1969 and that the number of farms offered for sale had remained unchanged over the year. Because of the reduced number of buyers in the market, sales were down from a year earlier and at about the same level as in March 1970.

Reporters in October held about the same opinion of the credit market as in the March survey. Many commented that farm operators were deferring long-term capital expenditures and were utilizing short-term credit which was more readily available.

FARM DEBT

A tight money situation throughout the economy in 1970 made credit costly and less available to the U.S. farming sector. Because of a greater reluctance to borrow at high rates, farm debt rose only 5.9 percent during the year compared with an increase of 6.7 percent in 1969 and an average of 9.0 percent during the preceding 10 years. The total debt on January 1, 1971, was $58.6 billion (table 2 and fig. 3).

Real estate debt increased only $0.8 billion in 1970 compared to an increase of $1.3 billion in 1969. In contrast, shorter term non-real estate debt expanded $2.5 billion during 1970, a larger increase than occurred in any year of the last decade. Production financing requirements continued high and some farmers used short-term credit for major expenditures ordinarily financed with long-term real estate loans.

During 1966, 1967, and 1968 the increase in the total farm debt was about evenly divided between non-real estate debt and real estate debt. However, about two-thirds of the total increase in the 2-year period 1969-70 was in non-real estate debt (fig. 4).

Because of softening of interest rates and greater availability of credit expected in 1971, correspondents believe use of farm real estate credit will accelerate as farmers try to catch up on capital improvements. If long-term interest rates decline significantly, correspondents also expect some shifting of contract land sales to permanent mortgage financing and some consolidation of short-term debts into real estate debt. The late 1970 decline in interest rates in the money market resulted in some lowering of mortgage interest rates by the Federal land banks and life insurance companies. Many correspondents believe long-term rates may drop ½ to 1 percent in 1971.

Increased costs of production inputs will maintain a strong demand for farm operating credit. Interest rates on short-term farm loans of commercial banks may not show much decline until spring. Banks mainly lend local funds and changes in their rates tend to lag behind changes in the money centers. Loan funds of production credit associations come basically from the money markets. Therefore PCA's may be able to reduce rates somewhat earlier than banks.

Farm Mortgage Debt

Outlook for 1971. Correspondents generally indicated farmers will remain conservative in increasing long-term

Table 2.—Farm debt outstanding January 1, and annual change, 1960-71[1]

Year	Debt outstanding January 1			Change in debt during year					
				Dollar change			Percentage change[2]		
	Total	Real estate	Non-real estate	Total	Real estate	Non-real estate	Total	Real estate	Non-real estate
	Billion dollars	*Billion dollars*	*Billion dollars*	*Billion dollars*	*Billion dollars*	*Billion dollars*	*Percent*	*Percent*	*Percent*
1960	23.6	12.1	11.5	1.2	0.7	0.5	5.0	6.1	3.8
1961	24.8	12.8	12.0	2.0	1.1	.9	8.2	8.4	7.9
1962	26.8	13.9	12.9	2.9	1.3	1.6	10.7	9.1	12.3
1963	29.7	15.2	14.5	3.3	1.6	1.7	11.2	10.8	11.7
1964	33.0	16.8	16.2	3.0	2.1	.9	9.2	12.4	5.8
1965	36.0	18.9	17.1	4.1	2.3	1.8	11.5	12.1	10.8
1966	40.1	21.1	19.0	4.4	2.2	2.2	10.9	10.0	12.0
1967	44.5	23.3	21.2	4.5	2.2	2.3	10.0	9.4	10.6
1968	49.0	25.5	23.5	2.9	1.6	1.3	6.1	6.5	5.7
1969	51.9	27.1	24.8	3.5	1.3	2.2	6.7	4.7	8.8
1970	55.4	28.4	27.0	3.2	0.8	2.4	5.9	3.0	8.9
1971[3]	58.6	29.2	29.4						

[1] Data for 48 States only. Excludes Commodity Credit Corporation loans. [2] Computed from unrounded data. [3] Preliminary estimates.

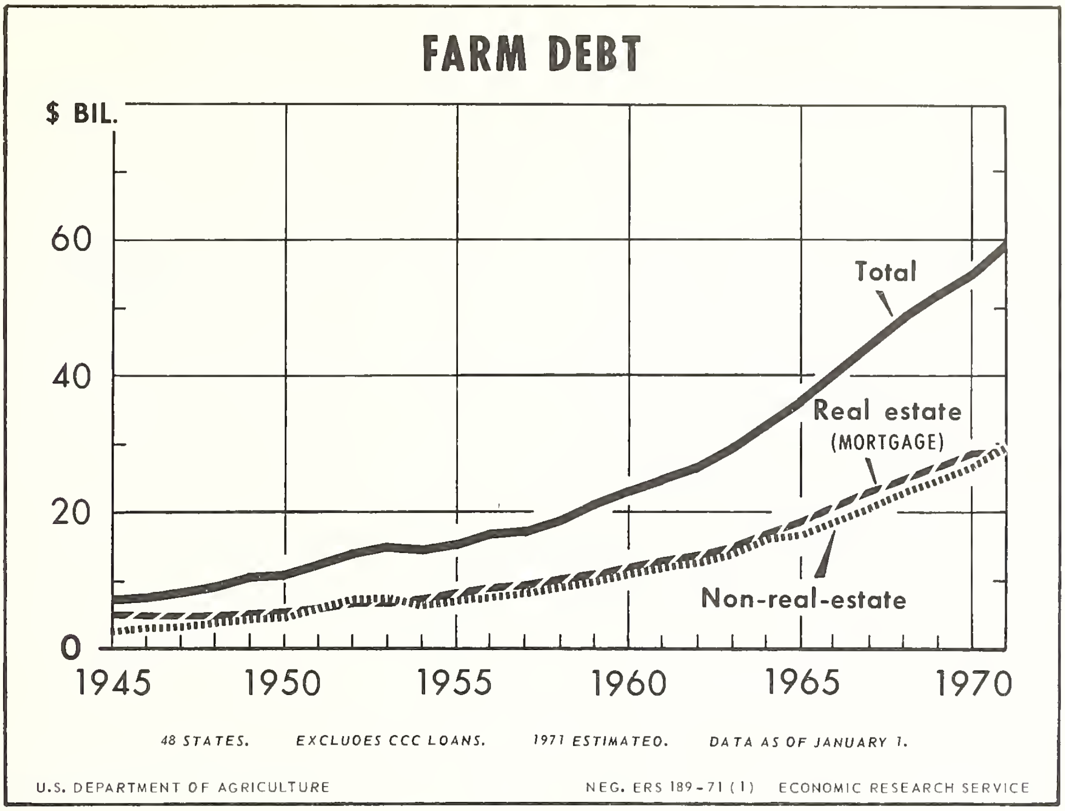


Figure 3

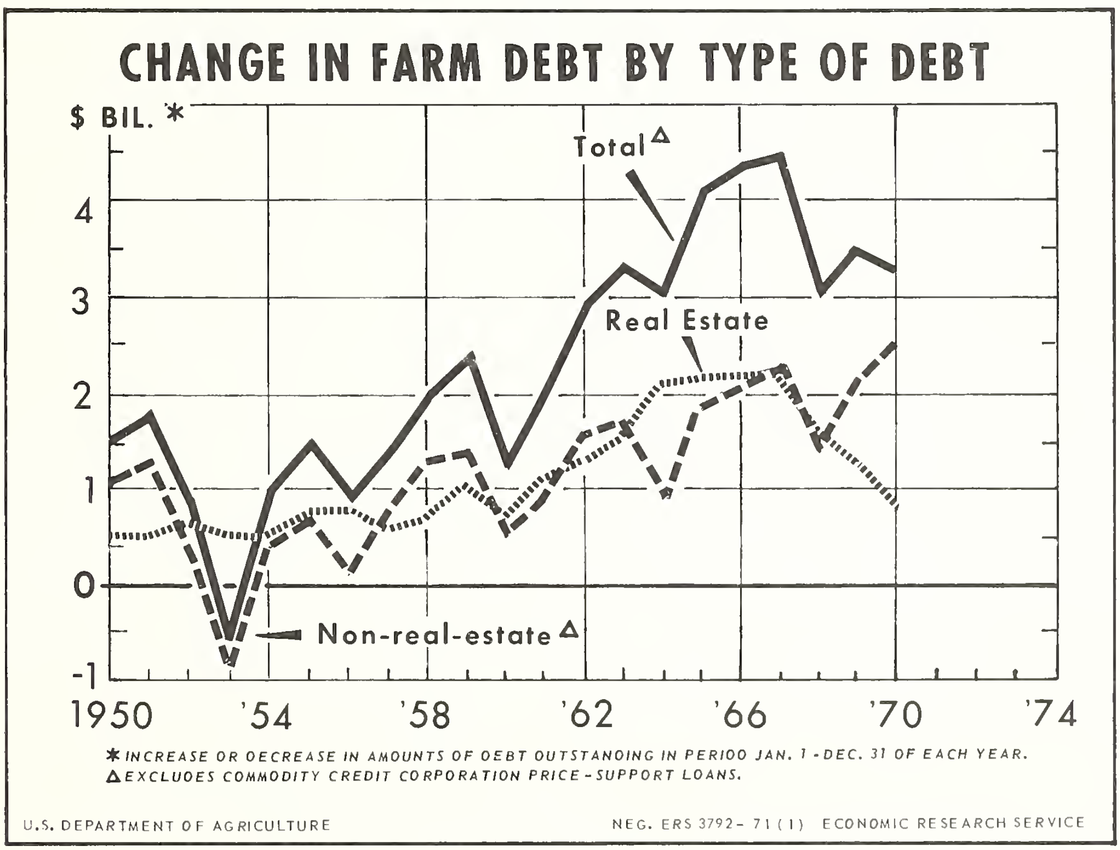


Figure 4

debt in 1971. However, with the prospect of lower interest rates, some reporters indicated that farmers may transfer some current short-term credit to long-term real estate mortgage debt.

In view of the easing of the general money suppy in the last half of 1970, correspondents believe that credit will be available in 1971 to satisfy the demand by farmers who have adequate real estate equity.

Farmers Home Administration respondents report that in some areas local banks, Federal land banks, and life insurance companies, particularly those with limited funds, appear to have become more conservative in making long-term loans. This may result in an expanded group that will have increasing difficulty in getting adequate real estate credit on reasonable terms in 1971. This group not only includes operators of many smaller marginal units but some young and established operators who normally would be financed by conventional lenders. Loan funds of the Farmers Home Administration are not sufficient to meet the needs of this group.

As in 1970, most of the 1971 demand for long-term credit will come from farmers acquiring additional land. Although there is an increase in demand for land in many areas for industrial, speculative, and recreational use, reporters believe these types of demand will not greatly reduce long-term funds available to farmers for farm mortgage credit.

Long-term interest rates during 1971 will probably be slightly lower than in 1970, perhaps as much as 1 percentage point lower.

Developments in 1970. Inquiries for long-term credit were greater in 1970 than in 1969, according to correspondents. However, the use of new long-term credit was at a low level due to the high interest rates and uncertain outlook for profit opportunities. Repayment experience on outstanding debt was about normal. The number of delinquencies also held about normal except in the Far West, where there was some increase.

During 1970, many life insurance companies had only limited loan funds for new farm real estate loans. Others were restricted in some States due to the usury laws with fixed maximum interest rates lower than the prevailing rate for long-term loans. Farmers in States with restrictive usury laws were primarily dependent upon the Federal land banks for institutional real estate credit. The restricted availability of loan funds resulted in increased seller financing of farm sales.

Total farm mortgage loans made or recorded during the first half of 1970 were 12 percent below the comparable period of 1969. Reductions were shown for all regions (fig. 5). However, over one-half the drop was in the Corn Belt and Pacific regions. The largest decrease, 20.7 percent, was in the Corn Belt. Approximately one-third of all farm real estate debt is located in these two regions.

The growth of farm real estate debt has slowed since 1965, when it rose $2.3 billion (fig. 4). The 1970 increase of $0.8 billion, to a total of $29.2 billion, was the smallest in the last decade.

Although farm real estate interest rates on new loans in the last half of the year were 1.0 to 1.5 percentage points higher than a year ago, there was some softening of rates near year-end. The average rate for life insurance company farm loan commitments during the third quarter 1970, 9.37 percent, was 0.11 percentage point lower than for the second quarter. Three Federal land banks lowered their interest rates from 9.0 percent to 8.5 percent—two effective November 1970 and one effective December 1970. One lowered its rate from 8.5 to 8.0 percent effective December 1970.

In 1970 the Federal Land Bank of Saint Paul introduced a new lending practice called CO-FARM which permits a borrower to make payments on a real estate loan and to reborrow without renegotiating a new loan. This practice reduces the bank cost of providing service to the borrower and also reduces the cost to the borrower by eliminating additional title search, recording, and other charges associated with new or refinanced loans.

Non-Real Estate Farm Debt

Outlook for 1971. The demand for farm non-real estate credit in 1971 will continue strong. However, the rate of increase will not be as great as in 1970. Some borrowers making temporary use of short-term loans will be attracted to longer term loans if interest rates on those loans drop as anticipated. Purchases of farm machinery and equipment are expected to increase some with a large portion of purchases for replacement of wornout or obsolete items. New units are likely to be more expensive than those being replaced. Credit will continue to be used in most sales. Cost of production inputs will be higher than in 1970 but the increase will be less than in 1969 and 1970. Government payments to farmers in several of the crop programs will not be received until after July 1, 1971, thereby adding to credit needs this spring.

Credit will be generally more available than in 1970. However, reporters believed lenders will continue weighing good management ability and repayment capacity heavily in evaluating loan requests.

Correspondents agreed interest rates will be lower in 1971 than in 1970. Some thought the drop would be as much as 1 percentage point by mid-1971 and would stabilize near those levels for the rest of the year. However, as with other types of credit, the condition of the general economy will determine, in great measure, interest rates on farm loans.

Developments in 1970. Lenders supplied farmers with record amounts of short- and intermediate-term credit in 1970. The amount of such debt outstanding (excluding CCC loans) January 1, 1971, was $29.4 billion (table 2). The increase over a year earlier was a record $2.4 billion. The percentage increase was the largest since 1967. Farm

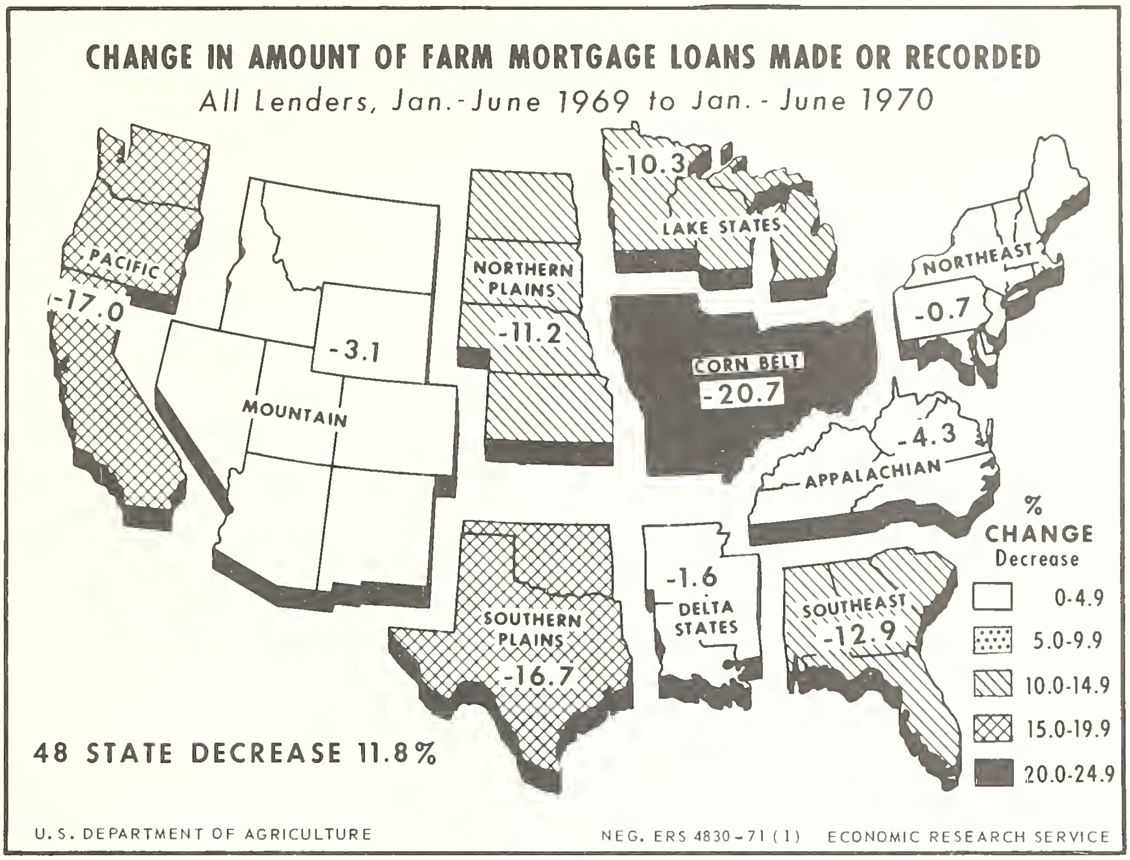


Figure 5

non-real estate debt held by institutional lenders at mid-1970 was 8.9 percent above a year earlier (fig. 6).

CCC loans, $1.8 billion on January 1, 1971, were one-third less than the last 2 years. Lower crop production and market prices above CCC loan values for storable crops accounted for the bulk of the decrease.

The increase in farmers' use of non-real estate credit occurred in spite of the highest interest rates in 50 years. Interest rates on farm non-real estate loans had increased sharply during 1969, and the yearend rates charged by banks were commonly above 8 percent. Production credit associations (PCA's) were averaging 9 percent. Merchants, dealers, and other miscellaneous lenders probably charged rates higher than banks and PCA's. Several reporters commented that interest rates by such lenders had been raised during the year.

The relatively high rates held for practically all of 1970. The volume of credit used created total interest charges on farm non-real estate debt of $2.0 billion in 1970—a record amount.

There were several causes for the increase in farm short- and intermediate-term credit. Prices of most inputs were higher. Activity in cattle feeding was brisk in the first half of the year, and prices were relatively high. Machinery and equipment purchases at higher prices added to total financing needs. Another important cause for the rapid growth in non-real estate farm credit was the substitution of this type of credit for longer term farm mortgage credit. Many farmers making capital purpose investments avoided long-term commitments at the rates of interest charged on new farm mortgage loans. Substantial sums of credit usually borrowed on long terms were obtained on shorter terms anticipating refinancing on longer terms when interest rates dropped.

Farmers found that credit for farm-operating and intermediate-term purposes was generally available during 1970. Commercial banks in some areas reportedly had requests for loans in amounts that exceeded the bank's lending limit to one borrower. Those situations were not unusual. Such requests were usually met through participating loans with other banks, or by referring the borrower to another lender.

The Farmers Home Administration loan funds were insufficient to satisfy all eligible requests, according to most FHA State directors. The agency's appropriation for 1970 did not increase. Adding to the problem was the increase in average loan size. As the average size loan required to adequately operate a farm increased, the number of farmers served by FHA, in some areas, decreased.

Production credit associations loaned a record $8.3 billion in 1970, increasing 17 percent over 1969. The

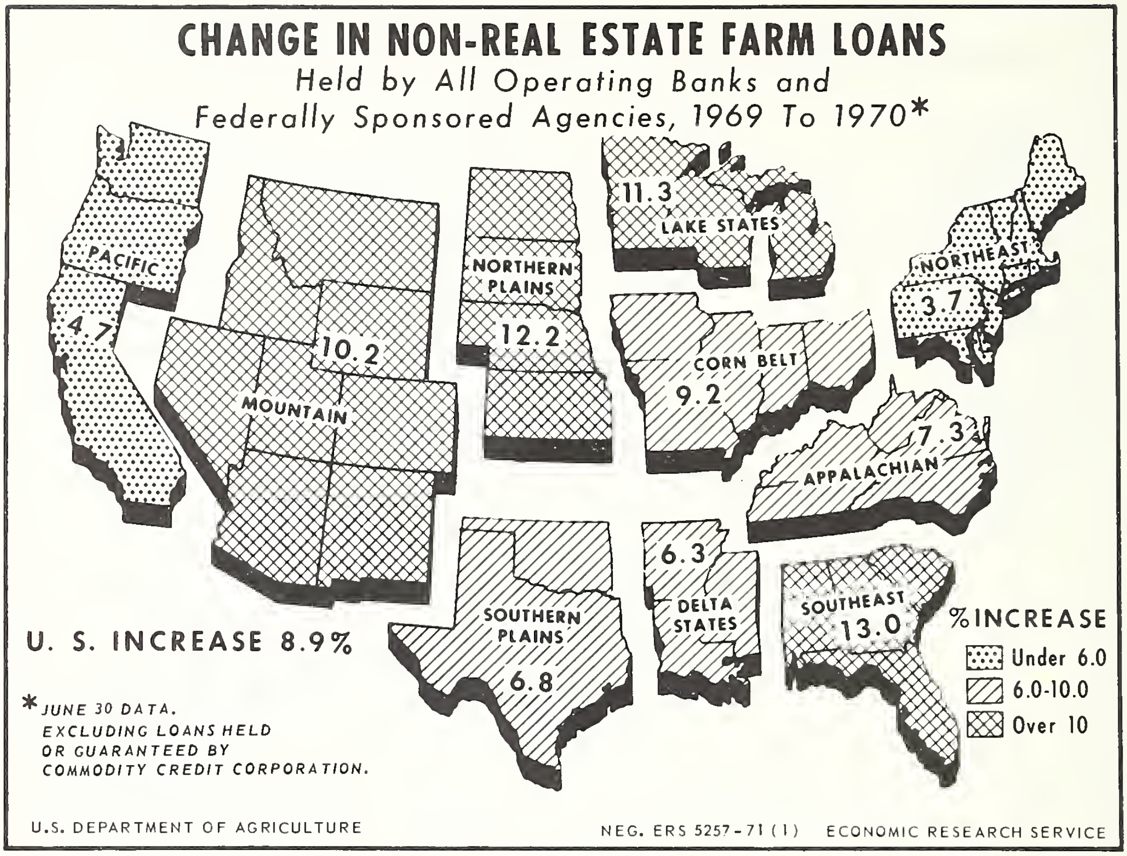


Figure 6

funds for most PCA loans were obtained at record costs, however. Interest payable on outstanding Federal intermediate credit bank debentures, the main source of new PCA loan funds, was unusually high during most of 1970. The following tabulation shows the prevailing rates over the last 4 years in average cost of Federal intermediate credit bank debentures outstanding September 1.

1967	4.91 percent
1968	5.36 percent
1969	5.93 percent
1970	6.90 percent

Most reporters stated repayments on short- and intermediate-term loans were good. Increased loan renewals were expected in areas severely affected by drought and Southern corn leaf blight.

REGIONAL SITUATION AND OUTLOOK

NORTHEAST

Regional highlights

	1969	1970	Change
	Million dollars	*Million dollars*	*Percent*
Cash receipts from farm marketings, total	3,661	3,782	3.3
Crops	1,098	1,159	5.6
Livestock and Livestock products	2,563	2,622	2.3
Market value of farm real estate, March 1	10,138	11,075	9.2
Farm real estate debt, Jan. 1	1,656	1,819	9.8
Farm mortgage recordings, Jan.-June	176	174	-1.1
Non-real estate farm loans held by reporting lenders, July 1	838	870	3.8

Outlook for 1971

Correspondents project 1971 net farm income for the Northeast region at close to the 1970 level. A conservative projection for receipts from potato marketings and anticipated lower prices for eggs and broilers largely offset expected higher receipts for milk. The outlook for Maine's Aroostook County potato growers continues dismal.

The demand for short-term credit by farmers will remain strong because certain groups such as potato and vegetable growers will borrow to meet current obligations, according to correspondents. Some lender groups, particularly life insurance companies, will continue to be relatively inactive. Even so, correspondents anticipate an adequate flow of credit except perhaps in the Maine potato area, which has experienced 4 discouraging years.

Land prices will continue upward due to the stronger effect of demand for nonfarmers. However, reporters indicate this demand has eased and 1971 prices are not expected to increase as rapidly as in recent years.

1970 Financial Conditions

Most of the agricultural enterprises in the 11 States of the Northeast farm production region had a relatively good year from the standpoint of production. Total cash receipts from all farm marketings were 3.3 percent higher than for 1969. Crop receipts increased 5.6 percent and livestock increased 2.3 percent. Although increased costs continued to squeeze margins, correspondents believed 1970 net profits for the region were somewhat more favorable than in 1969. An exception was broiler production, where lower prices toward the end of the year reduced profits. In the latter part of the year egg and hog prices declined and profits were reduced. In addition, the net returns of Maine potato growers and New York duck producers continued low. Late rains severely damaged the fall vegetable crops.

For the region as a whole, the financial savings and reserves of farmers at the beginning of 1971 are considered by reporters to be equal to if not higher than a year earlier. The higher milk prices enhanced the financial position of many farmers in the region. The sale of livestock and livestock products accounts for nearly 70 percent of the total cash receipts in the Northeast region.

The diverse agricultural resources of the region are such that a wide variety of crops are produced and hence correspondents cannot generalize as to the overall financial position of farmers primarily engaged in crop production. The 1969 Maine potato crop which was marketed after January 1, 1970, was considered to be a break-even crop. Producers who had potatoes of good quality on hand in the spring of 1970 benefited substantially from the high spring prices. However, prices received later in the year were not sufficient to cover production costs.

Northeast fruit growers had a poor year in 1970. In general the crop was excellent but prices were low. In New York State many growers did not harvest large portions of the apple crop due to the lack of an adequate market. Prices averaged around 95 cents per bushel compared with $1.15 per bushel in 1969.

In contrast to apple growers, New York grape growers experienced an excellent financial year. Prices were higher and production rose 18 percent over 1969. Cost of harvesting was minimized by use of mechanical picking equipment for over two-thirds of the 1970 crop.

Throughout the Northeast region off-farm employment is readily available to rural people. However, reporters indicate it is usually the part-time or less-efficient operators who seek off-farm employment. The small farmers continue to curtail their farm operations while remaining on the farm.

Correspondents reported that demand for credit by farmers continued strong. Although there appeared to be adequate credit for large and well established operators, local banks and other commercial lenders appeared to be showing less interest in agricultural loans. The lack of interest by commercial lenders is said to be leaving a vacuum. One FHA correspondent reports-

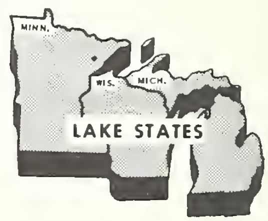
> "The eligibility for FHA credit is including larger and more efficient units as commercial lenders continued to be more selective. The demand for long-term real estate loans is growing rapidly with the demand for operating credit about the same. The other credit available to these operators is usually the high-cost consumer type of credit. Many banks have indicated an interest in sharing credit with FHA but few such loans have been worked out to date."

Land values in the Northeast continued to increase during 1970, increasing the net equity position of farmers. The rate of increase appears to have slackened, however, and in some States there was little change. Many correspondents reported the major demand for land was from speculators, industralists, recreation developers, and other nonfarm interests. Farmers' demand for land came largely from operators seeking to enlarge their operations in order to reduce per unit costs of production. The high cost of money appeared to be a major factor in reducing the number of actual land transfers.

LAKE STATES

Regional highlights

	1969	1970	Change
	Million dollars	*Million dollars*	*Percent*
Cash receipts from farm marketings, total	4,346	4,514	3.9
Crops	1,211	1,270	4.9
Livestock and livestock products	3,135	3,244	3.5
Market value of farm real estate, March 1	14,688	15,381	4.7
Farm real estate debt, Jan. 1	2,697	2,785	3.3
Farm mortgage recordings, Jan.-June	190	170	-10.5
Non-real estate farm loans held by reporting lenders, July 1	1,531	1,704	11.3



Outlook for 1971

Gross farm income in 1971 will increase according to correspondents. However, input costs will rise more sharply. Net farm income could be smaller. The general debt and financial position of farmers in 1971 is expected to change little from 1970. The commercial farmer will continue expansion and probably increase his debt position. However, anticipated increases in land values and additions to savings and reserves should be sufficient to increase net worth. The expected lowering of interest rates should release some of the pent-up demand for long-term credit that has been held in check during the last 3 years. Increased costs of production items will add to the credit demand. It appears that levels of spending and investment will be considerably higher in 1971 than in 1970.

Adequate loan funds should be available for farmers with sound farm plans. Central city banks are reportedly interested in including some larger farm operations in their loan mix. Interest rates should be down from the 1970 levels for short-term and intermediate-term financing. Some softening of rates for long-term financing is expected but not as much as in short-term.

1970 Financial Conditions

At the close of 1970 the financial position of Lake State farmers was little changed from a year earlier, according to field reporters. Farmers with higher net income were able to build reserves and savings.

Cash receipts from farm marketings in 1970 were 3.9 percent over 1969. Good prices for dairy products, feeders, fed steers, and most grains increased overall gross farm income. Dairy, beef and crop farms showed some increase in 1970 net income, but higher production costs largely offset higher gross income for other enterprises.

Southern Minnesota farmers received higher crop income in 1970 than in 1969 due to high grain prices and record corn and soybean yields. Midsummer drought cut small grain yields in west central and northwestern Minnesota, and despite slightly higher prices for wheat, oats and barley, farmers in these areas probably received lower crop farm income in 1970 than 1969.

The general overall financial condition of farm families in Wisconsin is about the same as a year ago. Specifically, dairy farming is a little stronger due to a favorable milk price; hog farming is weaker due to depressed prices. Mink ranchers are in difficulty because pelts are selling below cost and operating credit is difficult to obtain.

Cash receipts for Michigan farmers are expected to be second only to 1966. Yet net income showed little or no improvement over last year due to rising production expenses. Further, the general slow-up of the State's economy in recent months, marked by high unemployment rates, affected the income position of many farm families who supplement farm incomes with nonfarm employment.

Although the 1970 net financial position of Michigan farmers in general was little changed from 1969, the income of Michigan fruit growers was discouraging for the second year in a row—particularly for apple, tart cherry and cling peach producers. Apple growers in Michigan are at the mercy of the national production level which tends to be in over supply. Correspondents report that the tart cherry producers are in a worse situation than the apple growers. Reporters state that without a substantial lift in prices soon, many producers will go out of business. Michigan produced its second cling peach crop in 1970. The market demand was inadequate and growers are in serious financial trouble.

The agricultural credit situation in the Lake States is not unique. Short-term interest rates were up to 9½ percent and long-term rates of 8½ and 9 percent were common. Although State usury ceilings were raised in some instances, a self-imposed rationing process by banks prevailed. The trend continued toward heavier reliance on PCA's for short-term loans and individuals for long-term financing. The Federal Land Bank of Saint Paul introduced a lending practice referred to as "CO-FARM" which permits a farmer to repay and reborrow without the high cost of refinancing a real estate loan.

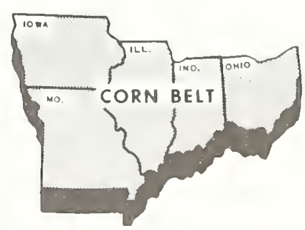
A Farmers Home Administrator State director relates the plight of farmers not eligible for regular credit.

> "Farmers in this group are squeezed harder because they are beginning farmers or operators with management problems. Cash rent is becoming common and increases the burden on tenant farmers. Generally, farmers in this group lack the better land and building resources and are less able to supplement farm income with nonfarm employment, social security or income from Agricultural Stabilization and Conservation Service programs."

CORN BELT

Regional highlights

	1969	1970	Change
	Million dollars	*Million dollars*	*Percent*
Cash receipts from farm marketings, total	10,678	10,948	2.5
Crops	3,859	4,104	6.3
Livestock and livestock products	6,818	6,844	.4
Market value of farm real estate, March 1	47,940	48,487	1.1
Farm real estate debt, Jan. 1	5,482	5,656	3.2
Farm mortgage recordings, Jan.-June	684	542	-20.8
Non-real estate farm loans held by reporting lenders, July 1	3,453	3,772	9.2



Outlook for 1971

Correspondents in the Corn Belt in general expect net farm income to be slightly lower than in 1970. Gross farm income may be about the same or slightly higher but farm costs are expected to be higher throughout the region. Anticipated 1971 grain sales will probably be materially lower. All outlook statements by correspondents showed uncertainty about the effect of the probable shortage of seed corn resistant to the Southern corn leaf blight. In addition, correspondents anticipate extensive substitution of soybeans for corn in Corn Belt areas heavily hit by the blight in 1970.

There is general agreement that demand for operating loans will be strong in 1971. A major factor is the weakened working capital position of farmers.

intermediate-term loans rather than making long-term commitments at high interest rates.

Adequate funds should be available for farm loans. However, correspondents indicate that large loans may be harder to secure from country banks and that lenders will be more selective than in 1970.

Reporters generally feel that interest rates will level off in 1971. The drop may not equal the fall in central money markets in late 1970 and early 1971 because rates charged by country banks did not rise to the same degree.

The volume of 1971 land transfers is expected to be down in the Corn Belt. However, speculators still appear to be in the market for farmland for nonfarm use, especially in the urban fringe areas. Land values will probably remain stable, with some continued acceleration in the urban fringes.

1970 Financial Conditions

Cash receipts from farm marketings were 2.5 percent higher than in 1969. Favorable prices for hogs and cattle during the first half of the year were responsible for a slight increase in cash receipts from the farm marketing of livestock. Cash receipts from crops were 6.3 percent above 1969 receipts.

Except for general declines in hog and cattle prices, the factors strongly influencing cash receipts varied from one area to another. Heavy spring rains in many sections of Illinois and Indiana delayed spring planting. A summer dry period followed. In some sections, the corn blight was a final blow, resulting for a few areas in a complete loss of the corn crop. Correspondents reported corn yields off 25 to 30 percent in other States. The December 1970 USDA crop production report indicated the following reduction in the 1970 corn crop from 1969—Illinois 22 percent, Indiana 18 percent, Iowa 8 percent, Missouri 5 percent and Ohio 0.4 percent.

Correspondents were almost unanimous in reporting decreased financial reserves of farmers during the year. Farmers have been using liquid assets as security for One reported that 65 percent of his contacts in Illinois believed that the financial position of farmers deteriorated slightly during 1970, and 20 percent sharply.

Throughout the Corn Belt short-term credit was in strong demand during 1970, according to reporters. However, demand for long-term credit was generally weak. Many farmers used short-term loans for purposes usually financed on longer terms.

The general Corn Belt credit situation was well summarized by one FHA correspondent:

> "The need for credit is greater. This will be especially true for 1971 due to lower farm income and increase in production costs. Private lenders' policies are still tight which will also increase credit needs from other borrowers."

At the close of 1970 there appeared to be more farmland for sale throughout the Corn Belt but buyers were generally scarce. The concensus was that land values remained at 1969 levels or declined slightly. A correspondent in Missouri reported:

> "Farmland market activity probably was slower this year than last. High land prices, interest rates, and production expenses when compared with income point to possible low net returns to many potential buyers. According to a recent survey of professional farm managers and rural appraisers, the number of farm sales in Missouri was estimated 23 percent below last year, with little or no change in prices."

Reports from Indiana and Illinois indicated that much of the land on the market represented estate sales. Although most estate settlements involve cash sales, approximately 60 percent of all sales were seller financed. None of the reporters indicated any change likely in 1971.

Credit was generally available to Corn Belt farmers during 1970. However, reporters indicated that lenders were more selective and that large loans were more difficult to secure.

APPALACHIAN

Regional highlights

	1969	1970	Change
	Million dollars	*Million dollars*	*Percent*
Cash receipts from farm marketings, total	3,648	3,867	6.0
Crops	1,744	1,892	8.5
Livestock and livestock products	1,904	1,975	3.7
Market value of farm real estate, March 1	14,878	15,365	3.3
Farm real estate debt, Jan. 1	1,881	1,987	5.6
Farm mortgage recordings, Jan.-June	333	319	-4.3
Non-real estate farm loans held by reporting lenders, July 1	1,143	1,226	7.3

Outlook for 1971

Reporters expected farm income in 1971 for the region to be equal to or better than that of last year. Production costs will also rise, leaving only minor improvement in net farm income. Many farm families with off-farm income likely will experience a reduction from that source due to the slower general economic situation, especially in the first half of the year.

Demand for credit will continue strong due to higher operating expenses and replacement of farm machinery. Also, some short- and intermediate-term loans will be refinanced into longer term contracts as opportunities appear.

Correspondents indicated loans were available in 1970 and will be more readily available in 1971 as the money situation loosens. Lenders will probably be more receptive to loan requests for nonessential farm operating purposes. More farm mortgage loans will be made than in 1970.

Interest rates will drop by as much as 1 percentage point in many parts of the area by midsummer in the opinion of most reporters. Short-term interest rates will likely show the greatest declines.

1970 Financial Conditions

The Appalachian region, a widely diverse area, offers varied sources of income to farmers. Total farm income is about equally divided between crops and livestock and livestock products. Whether farmers fared better or worse in 1970 than in 1969 depended on their particular sources of income.

Tobacco is the most important single enterprise in the region. Most fluecured tobacco growers (located principally in North Carolina) had a favorable year. Acreage was about the same as in 1969 but yields and production were up 14 percent. Prices averaged only slightly lower so value of production rose almost as much as production. Burley tobacco growers were not so fortunate. Slightly higher yields did not offset a nearly 10 percent drop in acreage. Prices were only slightly higher resulting in a value of production lower than in 1969.

Cotton production increased in the region. In Virginia yields nearly doubled 1969's and in North Carolina were up by two-thirds. In Tennessee, acreage and yields were slightly lower than in 1969.

Corn acreage was about the same as in 1969 but production was down about one-fourth. Drought and infestation of Southern corn leaf blight did the damage.

Virginia and North Carolina peanut growers enjoyed bumper crops. Acreage was the same as in 1969 but production was 30 percent greater. A slight increase in price upped value by one-third over their 1969 crop.

Soybeans were hurt by dry weather in North Carolina and Virginia and to a lesser extent in Tennessee. Yields and production were down from 1969. Higher prices more than offset lower production, and value of soybeans harvested showed a 14 percent increase for the region.

Livestock producers generally had a better year than many crop farmers. Returns from beef cattle were similar to those in 1969. Dairy farmers had good opportunities to improve their financial position. Egg and broiler producers reportedly held their own despite larger supplies. Hog producers were probably in the least favorable position following price declines in the last half of the year.

Growing industrialization in the Appalachian States offers many opportunities for off-farm employment. Total nonfarm income of farm families for 1970 was probably higher than in 1969. However, the increase was less than it might have been. Several reporters mentioned work slowdowns occurring during the last quarter of 1970. One reporter related the situation to farm debt repayment by saying, "Some temporary layoffs in nonfarm employment have reduced the farmers' gross

income and resulted in a reduction in debt paying ability."

Farmers in the Applachian region continued to use large amounts credit in their farm businesses. The following statement by one reporter typifies the situation: "Demand for farm credit remained strong in 1970, although perhaps not quite as strong as during the preceding year. Indications are that some farmers showed reluctance to borrow—particularly long-term money—at the higher rates of interest." Much of the increase in credit was due to higher operating expenses and additional machinery and equipment purchases to replace scarce and higher priced hand labor.

Credit was available although policies of lenders were generally more stringent. Loans averaged larger. With increase in size, loan requirements also changed. Correspondence from one large farm lender bears this out in his statement, "Credit policies were tightened up by most lenders with respect to large loans. More are requiring good farm records, cash-flow projections, and proof of good management and profitable operations."

Interest rates on new farm mortgage loans in 1970 ranged mostly between 8.5 and 9.5 percent. The amount and number of new loans made were down substantially from 1969. Interest rates on short- and intermediate-term loans from conventional lenders such as banks and production credit associations were mostly in the 8-9 percent range practically all year.

Farmland prices gained in 1970 but not as much as in other recent years. Several reporters stated that most farmland sales were financed by sellers rather than by regular lenders.

SOUTHEAST

Regional highlights

	1969	1970	Change
	Million dollars	*Million dollars*	*Percent*
Cash receipts from farm marketings, total	3,614	3,581	-1.0
Crops	1,799	1,780	-1.1
Livestock and livestock products	1,815	1,801	-0.8
Market value of farm real estate, March 1	12,948	13,768	6.3
Farm real estate debt, Jan. 1	1,904	2,026	6.4
Farm mortgage recordings, Jan.-June	327	285	-12.9
Non-real estate farm loans held by reporting lenders, July 1	831	938	12.9

Outlook for 1971

The financial position of farmers in the Southeast at the beginning of 1971 showed little change from a year earlier in the opinion of survey respondents. However, the generalization masks many individual situations that are not as good as in early 1970. Citrus growers are marketing a record but relatively low priced crop. This statement does not take into account damaging freezes in late January. The Southern corn leaf blight is a serious cloud over corn and livestock producers. Depressed hog prices and outlook for higher priced feed are causing considerable pessimism among swine producers.

Gross farm income is expected to increase slightly over 1970, but reporters look for higher operating costs to leave little if any improvement in net income. Prospects are for off-farm income to improve from the last quarter of 1970.

Loans will be available for operating expenses, machinery purchases, and farm improvements. Several reporters indicated loans for long-term purposes will be more available from life insurance companies than in 1970. Interest rates will tilt downward in the first half of 1971.

Demand for short-term farm loans will continue strong. If interest rates on long-term loans drop perceptibly, they will increase faster than short-term loans. In areas where reduced income conditions caused heavy delinquencies of short-term loans, some lenders reportedly will insist that borrowers refinance with long-term loans before advancing operating loans for 1971.

Expenditures for machinery, in most cases, will go for items that have worn out. Large increases in new loans for major equipment installations and farm enlargement are doubtful. The following statement by one reporter typifies the situation: "Most farmers are sitting back and waiting to see how the economy settles out before they take on additional long-term debt."

1970 Financial Conditions

Cash receipts from farming in the Southeast region decreased slightly in 1970. Crop production varied by State and by crop. Livestock producers also experienced an unstable year.

Cotton production increased about 7 percent from practically the same acreage as in 1969. Value of production including price support payments went up over 10 percent. The bulk of the increase of production and value was in Alabama, despite adverse weather conditions in that State that hampered harvesting and delayed ginning.

Soybean acreage increased 4 percent over 1969. Yields were down 4 percent, so production showed practically no change. Prices averaged about 50 cents a bushel higher, raising the value of production about one-fifth over 1969.

The increased returns for soybeans offset some of the bad news about corn. Damaging drought in many parts of the region teamed up with a severe outbreak of Southern corn leaf blight to wreak havoc with corn output. Production was down from 1969 by over 40 percent in South Carolina and Florida, nearly 30 percent in Alabama and 6 percent in Georgia. Although a 30-cent to 40-cent per bushel increase in price absorbed some of the shock, there was less feed for livestock and poultry.

Tobacco acreage was only slightly larger than in 1969, but higher yields raised production by one-sixth. In most cases, prices equaled or fell only slightly below 1969's, resulting in a 10-percent gain in value of production.

Florida citrus growers are harvesting a record orange crop—6 percent above the 1969-70 crop which was the previous record production. The larger 1970-71 crop depressed prices by one-fifth resulting in a considerably lower return. Florida vegetable farmers had a disappointing year. Unfavorable weather conditions hindered production and prices were lower. Also, freeze damage occured in Florida in late January.

Livestock production continued to increase. Prices of cattle and hogs held at relatively high levels until fall when hog prices declined substantially. Higher feed prices in the last quarter of the year reduced profits from most livestock including poultry.

In the last quarter of 1970 off-farm income suffered from the general economic slowdown and from strikes in industries related to certain nonfarm jobs.

Farm labor scarcity is an ever present problem in most parts of the region, according to reporters. Advancing farm wage rates add to the problem by increasing farming expenses.

Reporters often mentioned taxes on farm property as becoming a more important expense item. In earlier years taxes were not considered worthy of mention.

Interest rates on farm loans were relatively high for all of 1970. Despite this, farmers continued to use record amounts of short- and intermediate-term credit. Farm mortgage loan commitments were down.

The money situation continued tight but loans were available. Lenders consistently mentioned that management ability and repayment capacity were becoming the prime factors in appraising loan requests. State directors of the Farmers Home Administration reported they received loan requests from additional farmers not able to continue with conventional lenders, thereby putting extra pressure on FHA's limited loan funds.

ANNUAL OUTLOOK CONFERENCE SCHEDULED FOR FEBRUARY 1971

The National Agricultural Outlook Conference is scheduled for February 23 to 26, 1971. The Conference will give emphasis to the general domestic and international economic situation with time also devoted to the Commodity Sessions.

DELTA STATES

Regional highlights

	1969	1970	Change
	Million dollars	*Million dollars*	*Percent*
Cash receipts from farm marketings, total	2,418	2,602	7.6
Crops	1,148	1,289	12.3
Livestock and livestock products	1,270	1,313	3.3
Market value of farm real estate, March 1	11,873	12,709	7.0
Farm real estate debt, Jan. 1	1,566	1,691	8.0
Farm mortgage recordings, Jan.-June	273	269	-1.5
Non-real estate farm loans held by reporting lenders, July 1	855	909	6.3

Outlook for 1971

Gross farm income in the Delta States is expected to be slightly higher than in 1970. Net income should be close to that of last year. Demand for credit will continue strong. Long-term farm loans will increase in response to lower rates. Farm operating loans will increase regardless of interest rates. Reporters expect farm loan interest rates to ease in spring and early summer by as much as 1 percentage point in most parts of the region.

Uncertainty about income from cotton will keep expenditures for mechancial cotton pickers and related machinery to a minimum. Further investment in farmland will be slow.

Funds for farm mortgage loans will be more readily available than in 1970. Some reporters believe there will be improvement in availability of loans from life insurance companies. Operating credit will be available for efficient farmers. The Farmers Home Administration expects to receive requests from more qualified farmers than it can satisfy. Many requests for FHA loans reportedly will come from farmers previously served by conventional lenders.

1970 Financial Conditions

Most commercial farmers in the Delta States began 1971 in better financial condition than at the beginning of 1970. Receipts from crops, in Mississippi and Louisiana particularly, were much improved. Livestock returns did not show as big a boost as in 1969 but were above normal.

Until harvesttime, cotton crops in Mississippi and Louisiana were excellent. However, unfavorable weather delayed harvest and in many cases lowered quality in these States and in Arkansas. Some effects of the bad weather are indicated by the percentage of crop ginned the last several years as shown below.

Percent cotton crop ginned as of—

	November 1			December 1			December 12		
	1968	1969	1970	1968	1969	1970	1968	1969	1970
Miss.	66	83	33	92	97	83	96	99	97
Ark.	68	81	34	95	96	81	98	98	93
La.	63	83	41	91	98	90	96	100	97

Even so, production in the region was up 10 percent and value of production, plus price support payments, rose 11 percent.

Better yields on a slightly larger acreage boosted soybean production 14 percent. Higher prices increased value of production by over one-third.

A 15-percent reduction in rice acreage was partially offset by higher yields, especially in Louisiana. Production was down 8 percent for the region; value was lower by the same proportion.

Corn production in Mississippi was cut about one-third. Corn crops in several Southern counties were practically wiped out by Southern corn leaf blight and unfavorable weather. Louisiana and Arkansas showed increased corn production.

Louisiana's sugarcane production was 27 percent larger than in 1969 with value up proportionately.

Receipts from livestock and livestock products were improved over 1969. Cattle producers received most of the increase. Lower hog prices in the last half of the year trimmed producers' incomes. Arkansas broiler producers experienced a year similar to 1969, which was favorable.

Farm credit conditions in the Delta States were tight for most of the year. For many farmers, short-term debt had accumulated more rapidly than could be accommodated. Low net returns for several years prior to 1970 accounted for much of the debt buildup and above-average renewals in 1970. High interest rates

persuaded many farmers to postpone getting long-term loans and borrowings climbed on short and intermediate terms instead. Lenders were not anxious to increase loans in many instances. Reporters stated many lenders were requiring farm borrowers to substantially reduce their short-term debt, either by refinancing into long-term debt or otherwise, before advancing loans for 1971 operations. The Farmers Home Administration was already feeling the effects of tighter conventional lender policies. Requests for FHA farm loans were increasing.

Interest rates on farm loans in 1970 in most cases held at the high levels being charged at the end of 1969. The slight easing in rates late in the year came well after most loans were obtained for 1970 production expenses.

SOUTHERN PLAINS

Regional highlights

	1970	1969	Change
	Million dollars	*Million dollars*	*Percent*
Cash receipts from farm marketings, total	3,844.5	4,047.9	5.3
Crops	1,384.0	1,495.8	8.1
Livestock and livestock products	2,460.5	2,552.1	3.7
Market value of farm real estate, March 1	25,415	26,691	5.0
Farm real estate debt, Jan. 1	2,549	2,669	4.7
Farm mortgage recordings, Jan.-June	339	283	-16.5
Non-real estate farm loans held by reporting lenders, July 1	1,771	1,892	6.8

Outlook for 1971

Demand for short-term credit is expected to remain strong in 1971. Demand for long-term credit will increase some as interest rates ease, especially as borrowers refinance short-term loans. Interest rates will decrease slightly, possibly ½ to 1 percentage point. Short-term rates are expected to drop sooner than long-term rates.

Land prices will remain steady to down slightly for the region. Prices of irrigated land will probably hold up better than the dryland areas.

Uncertain prospects for beef cattle feeding in 1971 were reported by some correspondents from Texas. The uncertainty stems from worries over feed-grain supplies and prices, higher feeder calf prices, and lower hog and poultry prices.

Farmers in the livestock areas entered 1971 probably in better financial condition than a year ago. But crop farmers generally did not fare as well, especially in the dryland cotton and feed-grain areas.

1970 Financial Conditions

Total cash receipts from farm marketings increased during 1970. Some decline in crop receipts was noted for Oklahoma, where dryland cotton and feed-grain yields were down. Livestock receipts increased in both Texas and Oklahoma.

Cotton production in Oklahoma was down from 279,000 bales in 1969 to an estimated 185,000 bales. Texas upland cotton increased from 2,834,000 bales to 3,225,000.

Numbers of cattle on feed continued to increase, but the reported 4-percent increase for Texas on January 1, 1971, over 1970 was much lower than the 32-percent increase from 1969 to 1970.

Generally, rancher and stocker cattlemen were making some profit, but fat cattle were reported to be mostly in a loss position. Hog, lamb, wool, and mohair prices were reported to be down. Dairy prices were favorable.

NORTHERN PLAINS

Regional highlights

	1969	1970	Change
	Million dollars	*Million dollars*	*Percent*
Cash receipts from farm marketings, total	5,381	5,441	1.1
Crops	1,770	1,728	-2.4
Livestock and livestock products	3,661	3,713	2.8
Market value of farm real estate, March 1	22,227	22,235	0.0
Farm real estate, debt, Jan. 1	2,355	2,476	5.1
Farm mortgage recordings, Jan.-June	217	192	-11.5
Non-real estate farm loans held by reporting lenders, July 1	2,375	2,664	12.2

Outlook for 1971

Receipts from farm marketings are expected to equal or exceed the improved levels of 1969 and 1970. Favorable factors include improved weather conditions in recent months, and passage of the Agricultural Act of 1970. However, production costs are expected to continue to rise resulting in no increase and probably some decline in net farm income.

Farm mortgage recordings will probably expand following the curtailment which began in 1969. Interest rates may ease a little. Reporters anticipate some shifts to regular real estate mortgages away from interim short-term financing and financing by land contracts.

1970 Financial Conditions

Receipts from crop marketings increased slightly in Nebraska and South Dakota but were lower in North Dakota and Kansas where drought was severe in some areas. Yield and production of durum wheat and feed crops in North Dakota were much smaller. Farmers in eastern Kansas were hit by the summer drought which substantially reduced production of corn, sorghums, and soybeans. Higher prices for most crops throughout the region tended to offset the effect of lower production. Rains last fall improved subsoil moisture. Livestock receipts increased again in 1970, especially for cattle.

Total credit usage was up despite the reduction in use of mortgage credit. Greater use of production-type loans for capital financing was reported. Purchases of farm machinery were curtailed with indications farmers were more frequently "making do" with their current machinery by stretching out its useful life or turning to custom hiring rather than purchase. One reporter noted that where purchases were made, the "emphasis is on larger units that will reduce per-unit costs." There was little evidence of increased use of dealer credit. Dealers were reported to be more aware of the costs of providing such credit and in some cases had increased the interest rates charged on such loans. Farmers' financial reserves probably were maintained or increased.

Land values in the 12 months ended November 1, 1970, rose slightly in the Dakotas and Nebraska but declined 5 percent in Kansas, according to USDA estimates. Most reporters indicated land sales had been slow and prices in 1970 had leveled off or declined. The price weakness was attributed to such factors as the high level of interest rates, uncertainty about passage of the new farm bill and the reduced availability of mortgage financing. All of these factors are expected to be more encouraging to land investment in 1971. A particular factor mentioned by reporters was that life insurance companies appeared to be more interested in making farm mortgage loans. Apparently many farmers still strongly desire to obtain land to enlarge their operations.

MOUNTAIN

Regional highlights

	1969	1970	Change
	Million dollars	*Million dollars*	*Percent*
Cash receipts from farm marketings, total	3,743.9	3,848.3	2.8
Crops	1,230.6	1,260.8	2.3
Livestock and livestock products	2,513.6	2,587.5	3.0
Market value of farm real estate, March 1	16,164	16,638	2.9
Farm real estate debt, Jan. 1	2,580	2,661	3.1
Farm mortgage recordings, Jan.-June	240	232	-3.3
Non-real estate farm loans held by reporting lenders, July 1	1,766	1,947	10.2

Outlook for 1971

Interest rates are expected to decline slightly in 1971, with short-term rates declining before long-term rates. Short-term rates might decline as much as 1 percent, while long-term rates probably will decline less. Interest rates will still be high by historical standards. Demand for short-term loans will remain strong. Demand for real estate loans, especially to refinance short-term debt, is expected to increase. The possibility that tight money would prevail again in the second half of 1971, because of the demands for credit pertaining to environmental problems, was suggested by a few reporters.

The financial condition of farmers in this area is better going into 1971 than into 1970, especially in the sugarbeet area where 1969 was a very poor year. Farm receipts may be lower in 1971, especially for feeders of fat cattle as the margins for feeding have been reduced.

1970 Financial Conditions

Cash receipts from farm marketings increased slightly in 1970 over 1969 for both crops and livestock. All of the States had increased livestock marketings. Montana, Colorado, and Nevada crop marketings increased, but Idaho, New Mexico, Arizona, Wyoming, and Utah had decreases.

Colorado had a favorable sugarbeet harvest compared to a heavy loss of beets in 1969; crop receipts from sugarbeets rose 23 percent. Higher wheat prices helped increase Montana's crop marketings.

Arizona's barley and wheat production increased, but production of grain sorghum, sugarbeets, and upland cotton declined. In Idaho, barley, potatoes, beans, and seed production increased in 1970, but wheat, oats, mixed grains, sugarbeets, peas, and onion production decreased. Turkey and mink producers experienced difficulties.

Interest rates were significantly higher in 1970 than 1969, but rates on both short- and long-term loans eased slightly during the last quarter of 1970.

Machinery purchases generally were held to a minimum during 1970. Values for farmland generally were level or slightly downward. Land prices around major urban areas continued to increase. Total land values for the region increased slightly.

Farm real estate debt outstanding increased, but new real estate loans as measured by farm mortgage recordings for the first 6 months of 1970 declined. Higher interest rates and tighter credit conditions, combined with a reluctance to make long-term commitments at high interest rates, influenced real estate borrowing. Non-real estate loans outstanding July 1, 1970, increased 10 percent over July 1, 1969. Non-real estate loan demand continued strong. In addition, many borrowers substituted short-term loans for long-term loans in expectation of declining interest rates.

A slight upward trend was reported in the financial condition of the small farmer and family farmer group in New Mexico. In late 1970 credit conditions softened a little in central and southern Idaho. Other areas reported limited financing available for small or marginal farmers.

PACIFIC

Regional highlights

	1969	1970	Change
	Million dollars	*Million dollars*	*Percent*
Cash receipts from farm marketings, total	5,692.0	5,836.8	2.5
Crops	3,387.1	3,445.2	1.7
Livestock and livestock products	2,304.9	2,391.6	3.8
Market value of farm real estate, March 1	26,368	26,598	0.9
Farm real estate debt, Jan. 1	4,449	4,616	3.8
Farm mortgage recordings, Jan.-June	292	242	-17.1
Non-real estate farm loans held by reporting lenders, July 1	1,669	1,747	4.7

Outlook for 1971

Demand for short-term credit will remain strong. Long-term credit use is expected to increase as rates ease in 1971, especially to refinance short-term debt. Sales of farmland are expected to remain down, especially in the Central Valley area of California. Most correspondents were somewhat optimistic for 1971, but some were not because of uncertainties about corn blight, problems in cotton, increasing wages for labor for specialized crops, low hog prices, high feeder cattle prices, and restrictions on the use of chemicals.

Realized gross farm income should remain near or slightly above present levels, but costs are expected to increase more rapidly than receipts, lowering net farm income.

1970 Financial Conditions

Livestock receipts in all 3 States were higher in 1970 than 1969, for an overall increase of 3.8 percent. Cattle and dairy receipts increased in California, but egg receipts were off. Cattle and calf and sheep and lamb receipts were up in Oregon, but hog, dairy, and egg receipts declined.

In Washington, livestock receipts were up slightly, but crop receipts were about the same. Total receipts were slightly higher in 1970 than 1969. Crop receipts were slightly higher in Oregon and California.

For California's cotton, canning fruit, and almond enterprises, difficulties loomed. Cotton yields were not good in 1970, and insect and disease problems were present. Effects of government payment limitations are uncertain. In canning fruits and almonds, large nonbearing acreage presented a problem of future overproduction. Cling peach overproduction and cotton problems had occasioned several bankruptcy petitions in California. Similar problems may occur in almond production and other canning fruits.

Corn, wheat, and barley receipts were up in Washington. Potato production was up, but prices were down. Apple production dropped, but prices increased in 1970 over 1969. Poultry prices were lower than the previous year.

Cash receipts from grains were up in Oregon. Tree fruits and nuts had lower receipts, with production down for prunes, apples, and pears.

The market value of farm real estate increased only 1 percent. Some areas had lower farmland prices, especially San Juaquin Valley in California and the wheat belt in Washington.

Farm mortgage recordings were off sharply in January-June 1970 compared with the same period of 1969. Farm real estate and non-real estate debt outstanding was up.

Credit generally remained tight during 1970. Many reporters commented farm operators deferred long-term capital expenditures and had utilized short-term credit which was more readily available.

ALASKA

Regional highlights

	1969	1970	Change
	Million dollars	*Million dollars*	*Percent*[1]
Cash receipts from farm marketings, total	3.8	4.2	11.0
Crops	.9	1.1	32.5
Livestock and livestock products	2.9	3.1	4.7
Farm real estate loans held by reporting lenders, Jan. 1	2.7	2.7	1.1
Non-real estate farm loans held by reporting lenders, July 1	2.3	2.4	3.7

[1] Calculated from unrounded data.

ALASKA

Outlook for 1971

Further improvement is anticipated in farm production and income. Population is increasing rapidly, strengthening markets for farm products. The oil work is contributing to the State's growth and to off-farm employment opportunities. Farming costs can be expected to increase here as elsewhere, but reporters were quite optimistic, particularly stressing the improved weather conditions. Demand for farm credit is expected to remain brisk in 1971. Interest rates will ease only slightly, if at all.

1970 Financial Conditions

Farm income recovered from the drought-caused drop of the previous year. Production of all crops increased sharply with value of production, as reported by the USDA Crop Reporting Board, 44 percent greater than the small output of 1969. The increased hay and feed grain crops will help dairy production, the most important farm enterprise. Off-farm earnings also increased. Adequate loan funds were reported to be available from the "Alaska Agricultural Revolving Loan Fund" and from other Federal and commercial sources.

HAWAII

Regional highlights

	1969	1970	Change
	Million dollars	*Million dollars*	*Percent*[1]
Cash receipts from farm marketings, total	198.6	206.6	4.0
Crops	158.6	163.9	3.3
Livestock and livestock products	40.0	42.7	6.8
Farm real estate debt, Jan. 1	18.7	17.5	-6.7
Farm mortgage recordings, Jan.-June	.3	1.9	457.2
Non-real estate farm loans held by reporting lenders, July 1	12.2	11.3	-7.9

[1] Calculated from unrounded data.

HAWAII

Outlook for 1971

Interest rates have eased from the high point in 1970 and are expected to be reduced further in 1971. Demand for credit should continue strong into 1971. Agribusiness loans to meat and poultry slaughter houses are expected to increase due to capital improvement requirements for compliance with the State's Wholesome Meat and Wholesome Poultry Act.

1970 Financial Conditions

Cash receipts from farm marketings in 1970 were 4 percent over 1969. Both livestock and crop receipts increased.

Farm real estate and non-real estate debt outstanding both decreased between the reporting dates from 1969 and 1970. Generally, the correspondents reported credit demand outstripped the availability of credit in Hawaii. In addition to the restricted monetary situation during 1969 and 1970, farmers in Hawaii do not have all of the credit facilities available that other States have. The Federal Intermediate Credit Bank, Bank for Cooperatives, Commodity Credit Corporation, and Rural Electrification Association credit are not available. The Federal Intermediate Credit Bank of Berkeley and the Berkeley Bank for Cooperatives are both studying the feasibility of operating in Hawaii.

The State of Hawaii is unique in having a complete farm loan program to try to meet some of this lack of credit through a $6.2 million revolving loan fund. Types of loans include real estate and chattels, and loans to corporations or cooperatives. Loans can be made directly or in participation with private lenders. In late 1970, interest rates were reduced from a high of 10 percent to 9 or 9-1/2 percent for short- and intermediate-term loans.

Outlook for 1971

Industrial expansion on the island, while improving markets for farm products, is expected to continue to increase farm costs and aggravate farm labor shortages. Farmers' financial condition, which apparently changed little in 1970, seems unlikely to improve much in 1971. Non-real estate lending increased last year and adequate credit is expected to be available in 1971. The financial progress of farmers will continue to be affected by the governmental assistance programs designed to help farmers improve and mechanize their operations and meet increasing labor cost. Expenditures for these programs increased in 1970.

1970 Financial Conditions

Gross farm income was reported to be only slightly larger than the relatively low level of the previous year. Output was smaller for several crops including sugarcane, coffee and tobacco. Government assistance programs were expanded. With demands strong, sales of livestock and poultry products increased. Net farm income in 1970 was probably about the same as in 1969.

Government assistance programs were reported to have been about double the level of the previous year, rising to 8 percent of gross receipts. Much of the assistance was for wage supplements to farm laborers and for rehabilitating the sugarcane industry.

A larger volume of non-real estate loans was outstanding on June 30, 1970, than a year earlier for the reporting lenders, particularly for banks that had curtailed lending the previous year. Total loans of the Farmers Home Administration increases more than 50 percent with a large part of the funds used for rural housing. Although some increase in loan delinquencies was reported, lenders appeared to be fairly confident about the farm outlook.

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AFO-10, FEBRUARY 1971

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